

Research

Purchasing indices suggest first quarter slowdown

Economic Highlights

- The final estimate for UK GDP in Q4 2015 revised up quarterly growth to 0.6%, with annual growth for 2015 now recorded as 2.3%. The service sector continues to drive growth, up 0.8% in the quarter, with the hotel and food services sector growing particularly strongly, up 2.3%.
- The Consumer Prices Index (CPI) rose by 0.5% in the year to March, compared with a 0.3% increase in the year to February. The largest upward contribution came from air transport, air fares increased by 23% between February and March, partially due to the timing of Easter.
- The latest employment statistics for the three months to January 2016 showed an increase in employment of 116,000 when compared against the three months to October 2015. Unemployment decreased by 28,000 to 1.68 million, resulting in a fall in the unemployment rate to 5.1%.

UK consumers continue to drive growth, with the savings ratio of 3.8% in Q4 2015 a record low.



The PMI surveys all point to expansion in the first quarter, but it will not match the 0.6% growth of Q4 2015.



The IMF now expects UK GDP growth of 1.9% in 2016, down from the 2.2% previously forecast.

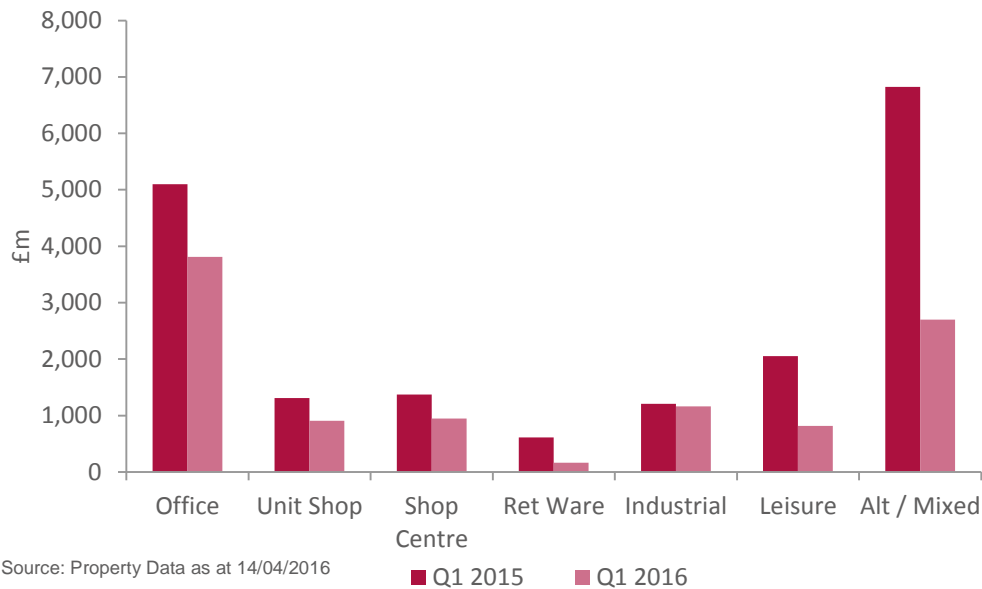


Sector Highlights

- Office – The UK Services PMI increased to 53.7 in March from the 35-month low of 52.7 in February, the figures represent a slowdown from 2015 but still suggest expansion. (Markit/CIPS)
- Industrial – The UK Manufacturing PMI rose slightly to 51.0 in March from February's 34-month low of 50.8. The Q1 2016 average of 51.6 representing the lowest quarterly result since early 2013. (Markit/CIPS)
- Retail – Retail sales volumes fell by 0.4% between January and February. However, the three months to February 2016 saw volumes increase by 0.8% versus the previous three months, whilst on an annual basis the three months to February saw sales rise 3.7%. (ONS)
- Construction – the UK Construction PMI reported a reading of 54.2 in March, the 35th month of expansion. However, this represented no improvement on February and the joint slowest rate of expansion since June 2013. (Markit/CIPS)
- Residential – UK house prices rose 1.6% in Q1 2016 and increased 5.3% on an annual basis. Greater London and the inner South East region (Outer Metropolitan) both recorded double-digit growth on an annual basis, with increases of 11.5% and 12.2% respectively. (Nationwide HPI)



Investment Activity



Q1 2016 saw investment volumes of £10.5bn, 43% down on the same quarter last year.

The prospect of Brexit has had an impact on volumes, and we expect this trend to continue into the second quarter.



Prime Yields

Sector		Prime Yield*	Direction (next six months)
Industrial	Distribution Centre (15 years)	5.00%	Stable
	Industrial Estate - Greater London	4.75%	Stable
	Industrial Estate – National	5.75%	Stable
Office	City	4.00%	Stable
	West End	3.50%	Stable
	South East	5.25%	Stable
	Provincial	5.25%	Stable
Retail	High Street - Regional Centre	4.00%	Stable
	Out of Town (open A1)	4.50%	Stable
	Shopping Centre	4.25%	Stable
Alts	Healthcare	5.00%	Stable
	Hotels	4.25%	Stable

Prime yields have stabilised across most sectors and are expected to maintain this level over the next six months.

This stability is predicated on the UK voting to remain in the EU on 23rd June.

Although we have seen a slowdown in buyer demand, this has been matched in most markets with a lack of stock and motivated sellers.



*The achievable yield for a freehold, prime investment; fully let and rack-rented to tenant/s of strong financial credibility on lease terms typical of prime property in that segment. Alts = Alternatives

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